



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

**Financial Statements and Federal Single Audit
Report**

North Yakima Conservation District

Yakima County

For the period January 1, 2013 through December 31, 2013

Published December 29, 2014

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Washington State Auditor
Troy Kelley

December 29, 2014

Board of Supervisors
North Yakima Conservation District
Yakima, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on the North Yakima Conservation District's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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FEDERAL SUMMARY

North Yakima Conservation District Yakima County January 1, 2013 through December 31, 2013

The results of our audit of the North Yakima Conservation District are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal Control Over Financial Reporting:

- *Significant Deficiencies:* We identified deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

Federal Awards

Internal Control Over Major Programs:

- *Significant Deficiencies:* We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- *Material Weaknesses:* We identified deficiencies that we consider to be material weaknesses.

We issued a qualified opinion on the District's compliance with requirements applicable to each of its major programs.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
11.438	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program
15.999	Yakima Tributary Access and Habitat Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

North Yakima Conservation District Yakima County January 1, 2013 through December 31, 2013

2013-001 North Yakima Conservation District's internal controls were inadequate to ensure compliance with federal requirements of its Yakima Tributary Access and Habitat Program.

CFDA Number and Title:	11.438 Pacific Coast Salmon Recovery
Federal Grantor Name:	U.S. Department of Commerce
Federal Award/Contract Number:	NA
Pass-through Entity Name:	South Central Washington Resource Conservation and Development
Pass-through Award/Contract Number:	10-1753R, 09-1590R, 12-1329R and 10-1764R
Questioned Cost Amount:	\$15,488

Description of Condition

The Pacific Coast Salmon Recovery Program is a cooperative program that assists the states in salmon restoration and in fulfilling responsibilities under the Pacific Salmon Treaty by providing administrative management.

We found the District did not have internal controls in place to ensure compliance with the following grant requirements:

Cost Principles

North Yakima Conservation District contracts with another conservation district for engineering services. These services are for multiple projects but are billed on one invoice. The District allocates the appropriate amount to be reimbursed from each relative program. We found two instances in which costs were not properly charged. One payment of \$2,422 was reimbursed from the wrong project and another payment of \$13,066 was reimbursed from two separate programs. As a result, \$15,488 was reimbursed through the grant that did not relate to the specific project within the Pacific Coast Salmon Recovery grant.

Procurement and Davis Bacon

The District paid a contractor \$136,601 for construction work on the Herke Screen Project. Of this, \$105,201 was paid through the Pacific Coast Salmon Recovery Program.

Procurement - The Federal Common Rule requires that construction projects exceeding \$100,000 be procured by sealed bids with formal advertising. The District was not aware that this project required formal bidding and instead mailed requests for proposals to 19 different contractors.

Davis Bacon - For federally funded construction projects that exceed \$2,000, the Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers. Grant recipients must include a provision stating the contractor and subcontractors must comply with the Davis-Bacon Act in construction contracts. The provision requires the contractor and subcontractors to submit a weekly copy of payroll and a statement of compliance (certified payrolls) to the grantee.

The District did not obtain weekly copies of certified payrolls to ensure contractors were paying federally prescribed prevailing wages to laborers.

Suspension and Debarment

Recipients of federal grants are prohibited from contracting with or making subawards to parties that are suspended or debarred from doing business with the federal government. For vendor contracts of \$25,000 or more and all subawards, the District must ensure the vendor or subrecipient is not suspended or debarred. This can be accomplished by obtaining a written certification from the vendor or subrecipient stating that its organization has not been suspended or debarred. Alternatively, the District may check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Services Administration. This requirement must be met prior to making the first payment to the vendors and subrecipients.

In 2013, the District paid \$133,844 to two vendors and did not verify that the vendors were not suspended or debarred. In addition, the grantee must inform the primary contractor or subrecipient of the requirement to check the suspension and debarment status of any covered transactions they enter into with subcontractors or subrecipients. The District did not communicate this requirement to one vendor.

Cause of Condition

Cost Principles

The District lacked adequate training and knowledge to administer the grant in accordance with federal requirements. Additionally, the District did not provide knowledgeable oversight of the grant designed to catch errors or potential non-compliance. We consider this control deficiency to be a significant deficiency.

Procurement and Davis Bacon

Procurement – The District was unaware that federal construction contracts require formal sealed bids over \$100,000.

Davis Bacon - The District was aware of Davis Bacon requirements. However, procedures were not put in place to ensure contractors paid prevailing wages.

We consider these control deficiencies to be material weaknesses.

Suspension and Debarment

The District was unaware that suspension and debarment requirements applied to all contracts paid over \$25,000, but believed that the requirement only applied to the main contractor. In addition, the District did not know it needed to communicate to its vendors that they needed to check the suspension and debarment status for its subcontractors or subrecipients. We consider this control deficiency to be a material weakness.

Effect of Condition and Questioned Costs

Cost Principles

Deficiencies in internal controls led to noncompliance with grant requirements that could result in repayment of grant funding or loss of eligibility for future federal awards. We are questioning \$15,488 in expenditures related to this program. The granting agency could seek repayment of questioned amounts.

Procurement and Davis Bacon

The District cannot ensure it obtained the best services at the most competitive prices. Therefore, it is possible other contractors were not provided the opportunity to compete for the contract, which can affect contract prices and the quality of services provided.

Also, the District cannot ensure contractors and subcontractors paid proper prevailing wages to their employees in compliance with federal regulations. This could result in underpayment of wages to laborers working on District projects.

Suspension and Debarment

Without adequate internal controls in place over suspension and debarment, the District cannot ensure that parties receiving grant funding are not suspended or debarred from participating in federal programs. This could result in a request from the granting agency for repayment of federal funds and could jeopardize future federal funding.

We verified the vendors and subrecipients were not suspended or debarred. Therefore, we are not questioning any costs.

Recommendation

We recommend the District establish adequate internal controls to ensure compliance with federal grant requirements and provide training to employees who are responsible for the use of the funds to ensure they have adequate knowledge of grant requirements. We further recommend the District:

- Ensure charges to the grant are supported and allowable.
- Follow federal procurement requirements when selecting contractors paid through federal grants.
- Obtains all required weekly certified payrolls for work performed on federally funded projects.
- Check the suspension and debarment status for vendors and subrecipients.

District's Response

Cost Principals: NYCD has and will require that any invoice submitted to NYCD by a third party will only have billing (s) for one project per invoice. NYCD accounting staff will be responsible to review all submitted invoices for accuracy and adhering to the new accounting policy (policy is already in place and being exercised). Project level staffs are aware of the new policy and no longer have "invoicing responsibility" thus minimizing risk in this cost principal. NYCD has worked with the YTAHP and RCO staff and have corrected ALL billings (no repayments were necessary due to the fact NYCD had additional invoices where YTAHP and RCO were able to withhold reimbursement(s) to correct over payments). YTAHP and RCO are satisfied with the corrections.

Procurement and Davis-Bacon: At this time NYCD staffs responsible for contracting have taken training courses (summer and fall 2014) on procurement and contracting and are aware of the current federal requirements in this regard. In addition, training included the required elements of the Davis-Bacon Act with emphasis on reporting issues / needs.

Suspension and Debarment: NYCD has implemented a policy that ALL vendors and sub-recipients will be checked for suspension and debarment regardless of level of payment (prior to payment). In addition NYCD has developed appropriate language to be included in any sub-contract (sub-recipient) requiring the same level of review of the suspension and debarment requirement.

Additional: NYCD administrative, accounting and project level staff will review the included “applicable laws and regulations” information submitted here by the SAO staff.

Auditor’s Remarks

We thank the District for its cooperation and assistance during the audit. We will review the status of these issues during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR 225), Appendix A, Section C, states in part:

1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

(b) Be allocable to Federal awards under the provisions of this Part.

(j) Be adequately documented.

Title 29, Code of Federal Regulations, Section 3.3, states in part:

Weekly statement with respect to payment of wages.

(b) Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or

building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period.

This statement shall be executed by the contractor or subcontractor or by unauthorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on form WH348, "Statement of Compliance", or on an identical form on the back of WH347, "Payroll (For Contractors Optional Use)" or on any form with identical wording...

(c) The requirements of this section shall not apply to any contract of \$2,000 or less.

Title 15, Code of Federal Regulations, Section 24.36 – Procurement, states in part:

b) Procurement standards.

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . .

(d) Methods of procurement to be followed.

(1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41U.S.C. 403(11) (currently set at \$100,000) . . .

(2) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, confirming with all the material terms and conditions of the invitation for bids, is the lowest in price

Title 2, Code of Federal Regulations, Section 180.200 - What is a covered transaction?

A covered transaction is a nonprocurement or procurement transaction that is subject to the prohibitions of this part. It may be a transaction at—

- (a) The primary tier, between a Federal agency and a person (see appendix to this part); or
- (b) A lower tier, between a participant in a covered transaction and another person.

Title 2, Code of Federal Regulations, Section 180.970 - Nonprocurement transaction, states:

- (a) Nonprocurement transaction means any transaction, regardless of type (except procurement contracts), including, but not limited to the following:
 - (1) Grants.
 - (2) Cooperative agreements.
 - (3) Scholarships.
 - (4) Fellowships.
 - (5) Contracts of assistance.
 - (6) Loans.
 - (7) Loan guarantees.
 - (8) Subsidies.
 - (9) Insurances.
 - (10) Payments for specified uses.
 - (11) Donation agreements.
- (b) A nonprocurement transaction at any tier does not require the transfer of Federal funds.

Title 2, Code of Federal Regulations, Section 180.220 - Are any procurement contracts included as covered transactions?

- (b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:
 - (1) The contract is awarded by a participant in a nonprocurement transaction that is covered under Sec. 180.210, and the amount of the contract is expected to equal or exceed \$25,000.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

- (a) The audit shall be conducted in accordance with GAGAS.

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial

statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

SCHEDULE OF FEDERAL AUDIT FINDINGS AND QUESTIONED COSTS

North Yakima Conservation District Yakima County January 1, 2013 through December 31, 2013

2013-002 North Yakima Conservation District's internal controls were inadequate to ensure compliance with federal requirements of its Yakima Tributary Access and Habitat Program.

CFDA Number and Title:	81.398 Yakima Tributary Access and Habitat Program
Federal Grantor Name:	U.S. Department of Energy
Federal Award/Contract Number:	297-398-00
Pass-through Entity Name:	South Central Washington Resource Conservation and Development
Pass-through Award/Contract Number:	2007-398-00
Questioned Cost Amount:	\$49,674

Description of Condition

The Yakima Tributary Access and Habitat Program works to restore anadromous salmon fish runs in the Yakima River Basin. In 2013, the District spent \$322,987 in funding from this program.

We found the District did not have internal controls in place to ensure compliance with the following grant requirements:

Cost Principles

The North Yakima Conservation District contracts with a Washington Conservation Corps work crew on projects throughout the year. In 2013 the District charged the grant \$49,674 for work that was not adequately supported by documentation demonstrating the amount paid was for actual time spent on the grant.

We reported a finding over this same issue in our last audit, which was performed over fiscal year 2010.

Cash Management

Federal regulations stipulate that cash advances should pay only for immediate funding needs. If the District requests federal funds prior to paying the expenses, it must track any interest earned and remit it to the federal agency.

The District requested three reimbursements of expenses before paying the invoices. These expenses, totaling \$28,105, were paid between 27 and 69 days after receiving reimbursement, which is an unreasonable amount of time to cover immediate funding needs.

Procurement and Davis Bacon

The District paid a contractor \$136,601 for construction work on the Herke Screen Project. Of this, \$31,400 was paid through the Yakima Tributary Access and Habitat Program.

Procurement - The Federal Common Rule requires that construction projects exceeding \$100,000 be procured by sealed bids with formal advertising. The District was not aware that this project required formal bidding and instead mailed requests for proposals to 19 different contractors.

Davis Bacon - For federally funded construction projects that exceed \$2,000, the Davis-Bacon Act requires contractors to pay federally prescribed prevailing wages to laborers. Grant recipients must include a provision stating the contractor and subcontractors must comply with the Davis-Bacon Act in construction contracts. The provision requires the contractor and subcontractors to submit a weekly copy of payroll and a statement of compliance (certified payrolls) to the grantee.

The District did not obtain weekly copies of certified payrolls to ensure contractors were paying federally prescribed prevailing wages to laborers.

Suspension and Debarment

Recipients of federal grants are prohibited from contracting with or making subawards to parties that are suspended or debarred from doing business with the federal government. For vendor contracts of \$25,000 or more and all subawards, the District must ensure the vendor or subrecipient is not suspended or debarred. This can be accomplished by obtaining a written certification from the vendor or subrecipient stating that its organization has not been suspended or debarred. Alternatively, the District may check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Services Administration. This requirement must be met prior to making the first payment to the vendors and subrecipients.

In 2013, the District paid \$33,590 of program funding to a vendor for engineering services and awarded \$38,310 to one subrecipient. The District did not verify the vendor or subrecipient were not suspended or debarred.

We reported a finding over this same issue in our last audit, which was performed over fiscal year 2010.

Subrecipient Monitoring

Federal guidelines require pass-through entities to notify subrecipients of pertinent grant requirements and monitor the activities of subrecipients to ensure funds are used for allowable purposes. The District was not aware of the difference between a vendor and a subrecipient. As a result the District did not meet all of the disclosure requirements or adequately monitor its subrecipient. The District did not notify the subrecipients of federal grant titles or CFDA numbers and did not have language in the agreement that discussed the federal grant requirements they were to follow. Also, the District did not verify that its subrecipients received a federal audit and did not follow up on federal findings.

Cause of Condition

Cost Principles

The District lacked adequate training and knowledge to administer the grant in accordance with federal requirements. Additionally, the District did not provide knowledgeable oversight of the grant designed to catch errors or potential non-compliance. We consider this control deficiency to be a material weakness in internal controls.

Cash Management

The District's normal process is to pay invoices before requesting reimbursement. These invoices, however, were received by the Grant Manager first, who prepared the reimbursement request. He assumed the invoices were already sent through the bookkeeper for payment processing. We consider this control weakness to be a significant deficiency.

Procurement and Davis Bacon

Procurement – The District was unaware that federal construction contracts require formal sealed bids over \$100,000.

Davis Bacon - The District was aware of Davis Bacon requirements. However, procedures were not put in place to ensure contractors paid prevailing wages.

We consider these control deficiencies to be a material weakness in internal controls.

Suspension and Debarment

The District was unaware that suspension and debarment requirements applied to all contracts paid over \$25,000 and all subrecipients. We consider this control deficiency to be a material weakness in internal controls.

Subrecipient Monitoring

The District was not fully aware of all requirements related to subrecipient monitoring or the criteria for determining whether a vendor is considered a subrecipient. We consider this control deficiency to be a material weakness in internal controls.

Effect of Condition and Questioned Costs

Cost Principles

Deficiencies in internal controls led to noncompliance with grant requirements that could result in repayment of grant funding or loss of eligibility for future federal awards. We are questioning \$49,674 in expenditures related to this program. The granting agency could seek repayment of questioned amounts.

Cash Management

The District requested reimbursement for grant expenditures without paying the associated vouchers. As a result, the District had excess cash on hand from March 29, 2013 through June 6, 2013.

Procurement and Davis Bacon

The District cannot ensure it obtained the best services at the most competitive prices. Therefore, it is possible other contractors were not provided the opportunity to compete for the contract, which can affect contract prices and the quality of services provided.

Also, the District cannot ensure contractors and subcontractors paid proper prevailing wages to its employees in compliance with federal regulations. This could result in underpayment of wages to laborers working on District projects.

Suspension and Debarment

Without adequate internal controls in place over suspension and debarment, the District cannot ensure that parties receiving grant funding are not suspended or debarred from participating in federal programs. This could result in a request from the granting agency for repayment of federal funds and could jeopardize future federal funding.

We verified the vendors and subrecipients were not suspended or debarred. Therefore, we are not questioning any costs.

Subrecipient Monitoring

Without adequate internal controls over subrecipients the District cannot ensure subrecipients are following federal requirements for the use and reporting of program funds.

Recommendation

We recommend the District establish adequate internal controls to ensure compliance with federal grant requirements and provide training to employees who are responsible for the use of the funds to ensure they have adequate knowledge of grant requirements.

We further recommend the District:

- Maintain appropriate documentation to support charges against the grant for use of the Washington Conservation Corps work crew; including approved detail of specific hours or days in which the crew was used to work on projects specifically authorized by the grant.
- Pay expenditures before requesting reimbursement and ensure cash advances are not held for an unreasonable amount of time.
- Follow federal procurement requirements when selecting contractors paid through federal grants.
- Obtains all required weekly certified payrolls for work performed on federally funded projects.
- Check the suspension and debarment status for vendors and subrecipients.
- Ensure all applicable information and requirements are communicated to subrecipients and ensure the District adequately monitors those subrecipients.

District's Response

Cost Principals: The NYCD has begun (starting November 2014) to charge specific days to all funding sources to adhere to the "cost principals" rather than use the monthly grant identified amount. This will be consistent across all funding sources and will be consistent with monthly schedule worksheets.

Cash Management: NYCD accounting staff will be responsible to review all submitted invoices for accuracy and will submit them for invoicing and timely

payment. Project level staff are aware of the new policy and will no longer have that responsibility. All third party entities are aware of the proper staff contact at NYCD and are submitting invoices appropriately.

Procurement and Davis-Bacon: At this time NYCD staffs responsible for contracting have taken training courses (summer and fall 2014) on procurement and contracting and are aware of the current federal requirements in this regard. In addition, training included the required elements of the Davis-Bacon Act with emphasis on reporting issues / needs.

Suspension and Debarment: NYCD has implemented a policy that ALL vendors and sub-recipients will be checked for suspension and debarment regardless of level of payment (prior to payment). NYCD has developed appropriate language to be included in any sub-contract (sub-recipient) requiring the same level of review of the suspension and debarment requirement with follow-up support of such action with NYCD (monitoring). In addition, NYCD has included specific information to inform the sub recipient of federal requirements and identify funding source.

Additional: NYCD administrative, accounting and project level staff will review the included “applicable laws and regulations” information submitted here by the SAO staff.

Auditor’s Remarks

We thank the District for its cooperation and assistance during the audit. We will review the status of these issues during our next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 300, states in part:

The auditee shall:

- (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR 225), Appendix A, Section C, states in part:

2. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:

(b) Be allocable to Federal awards under the provisions of this Part.

(j) Be adequately documented.

Title 34, Code of Federal Regulations, Section 80.21 – Payment, states in part:

(a) Scope. This section prescribes the basic standard and the methods under which a Federal agency will make payments to grantees, and grantees will make payments to subgrantees and contractors.

(b) Basic standard. Methods and procedures for payment shall minimize the time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with Treasury regulations at 31 CFR part 205

Title 29, Code of Federal Regulations, Section 3.3 states in part:

Weekly statement with respect to payment of wages.

(b) Each contractor or subcontractor engaged in the construction, prosecution, completion, or repair of any public building or public work, or

building or work financed in whole or in part by loans or grants from the United States, shall furnish each week a statement with respect to the wages paid each of its employees engaged on work covered by this part 3 and part 5 of this chapter during the preceding weekly payroll period.

This statement shall be executed by the contractor or subcontractor or by unauthorized officer or employee of the contractor or subcontractor who supervises the payment of wages, and shall be on form WH348, "Statement of Compliance", or on an identical form on the back of WH347, "Payroll (For Contractors Optional Use)" or on any form with identical wording.

(c) The requirements of this section shall not apply to any contract of \$2,000 or less.

Title 10, Code of Federal Regulations, Section 600.236 – Procurement, states in part:

b) Procurement standards.

(1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . .

(d) Methods of procurement to be followed.

(1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41U.S.C. 403(11) (currently set at \$100,000) . . .

(2) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, confirming with all the material terms and conditions of the invitation for bids, is the lowest in price

Title 2, Code of Federal Regulations, Section 180.200 - What is a covered transaction?

A covered transaction is a nonprocurement or procurement transaction that is subject to the prohibitions of this part. It may be a transaction at—

(c) The primary tier, between a Federal agency and a person (see appendix to this part); or

(d) A lower tier, between a participant in a covered transaction and another person.

Title 2, Code of Federal Regulations, Section 180.970 - Nonprocurement transaction, states:

(c) Nonprocurement transaction means any transaction, regardless of type (except procurement contracts), including, but not limited to the following:

- (1) Grants.
- (2) Cooperative agreements.
- (3) Scholarships.
- (4) Fellowships.
- (5) Contracts of assistance.
- (6) Loans.
- (7) Loan guarantees.
- (8) Subsidies.
- (9) Insurances.
- (10) Payments for specified uses.
- (11) Donation agreements.

(d) A nonprocurement transaction at any tier does not require the transfer of Federal funds.

Title 2, Code of Federal Regulations, Section 180.220 - Are any procurement contracts included as covered transactions?

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

- (2) The contract is awarded by a participant in a nonprocurement transaction that is covered under Sec. 180.210, and the amount of the contract is expected to equal or exceed \$25,000.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person if allowed by this rule; or
- (c) Adding a clause or condition to the covered transaction with that person

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 400, states in part:

(d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:

(1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

(2) Advise subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

(3) Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

(5) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

(6) Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section 500, states in part:

(b) The audit shall be conducted in accordance with GAGAS. ...

Government Auditing Standards, December 2011 Revision, paragraph 4.23 states:

4.23 When performing GAGAS financial audits, auditors should communicate in the report on internal control over financial reporting and compliance, based upon the work performed, (1) significant deficiencies and material weaknesses in internal control; (2) instances of fraud and noncompliance with provisions of laws or regulations that have a material effect on the audit and any other instances that warrant the attention of those charged with governance; (3) noncompliance with provisions of contracts or grant agreements that has a material effect on the audit; and (4) abuse that has a material effect on the audit.

The American Institute of Certified Public Accountants defines significant deficiencies and material weaknesses in its *Codification of Statements on Auditing Standards*, section 265, as follows:

.07 For purposes of generally accepted auditing standards, the following terms have the meanings attributed as follows:

Material weakness. A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

SCHEDULE OF AUDIT FINDINGS AND RESPONSES

**North Yakima Conservation District
Yakima County
January 1, 2013 through December 31, 2013**

2013-003 The District's internal controls were inadequate to ensure the District met federal single audit reporting requirements.

Background

District management, the state Legislature, state and federal agencies and bondholders rely on the information included in financial statements and supplemental schedules to make decisions. It is the responsibility of District management to design and follow internal controls that provide reasonable assurance regarding the reliability of financial reporting. Our audit identified deficiencies in internal controls over financial reporting that could affect the District's ability to meet federal reporting requirements.

Government Auditing Standards, prescribed by the Comptroller General of the United States, require the auditor to communicate material weaknesses as defined below in the Applicable Laws and Regulations section, as a finding.

Description of Condition

The District spent more than \$500,000 in federal money during 2013 and was required to obtain and submit a federal single audit report to the Federal Clearinghouse by September 30, 2014, which did not occur.

Cause of Condition

The District's process for understanding single audit requirements was inadequate. District management believed the threshold for a federal single audit was \$750,000. As a result they did not request the necessary audit.

Effect of Condition

The District did not request a federal single audit when it was required and did not meet its federal reporting deadline. This could cause the District to lose future funding and the District will be considered high risk for future audits.

Recommendation

We recommend the District staff obtain additional training to ensure they are aware of federal grant reporting requirements. We further recommend the District establish controls to ensure a single audit is requested when required.

District's Response

As noted in the "Cause of the Condition" human error is the culprit for the mistake. To overcome the mistake NYCD staff at the management level will be responsible to research available resources such as the SAO website/help line and/or review the criteria within the detail of grant contracts to ensure single audits are conducted as appropriate. This will be done in conjunction with finalizing NYCD's annual audit report to the SAO (150 days max.).

Auditor's Remarks

We appreciate the steps the District is taking to resolve this issue. We will review the condition during the next audit.

Applicable Laws and Regulations

OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, states in part:

Section 200, Audit requirements,

(a) Audit required. Non-Federal entities that expend \$300,000(\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single or program-specific audit conducted for that year in accordance with the provisions of this part. Guidance on determining Federal awards expended is provided in §____.205.

(b) Single audit. Non-Federal entities that expend \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in a year in Federal awards shall have a single audit conducted in accordance with §____.500 except when they elect to have a program-specific audit conducted in accordance with paragraph (c) of this section.

Section 205, Basis for determining Federal awards expended, states in part:

(a) Determining Federal awards expended. The determination of when an award is expended should be based on when the activity related to the award occurs. Generally, the activity pertains to events that require the non-Federal entity to comply with laws, regulations, and the provisions of contracts or grant agreements, such as: expenditure/expense transactions associated with grants, cost-reimbursement contracts, cooperative agreements, and direct appropriations; the disbursement of funds passed through to subrecipients; the use of loan proceeds under loan and loan guarantee programs . . .

(b) Loan and loan guarantees (loans). Since the Federal Government is at risk for loans until the debt is repaid, the following guidelines shall be used to calculate the value of Federal awards expended under loan programs, except as noted in paragraphs (c) and (d) of this section:

(1) Value of new loans made or received during the fiscal year; plus

(2) Balance of loans from previous years for which the

Federal Government imposes continuing compliance requirements; plus

(2) Any interest subsidy, cash, or administrative cost allowance received.

Section 300, Auditee responsibilities, states in part:

The auditee shall:

(e) Ensure that the audits required by this part are properly performed and submitted when due.

Section 320, Report Submission, states in part:

(a) General. The audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the

end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**North Yakima Conservation District
Yakima County
January 1, 2013 through December 31, 2013**

Board of Supervisors
North Yakima Conservation District
Yakima, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the North Yakima Conservation District, Yakima County, Washington, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, and have issued our report thereon dated December 16, 2014.

We issued an unmodified opinion on the fair presentation of the District's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the District using accounting practices prescribed by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial

statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Responses as Finding 2013-003 that we consider to be significant deficiencies.

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

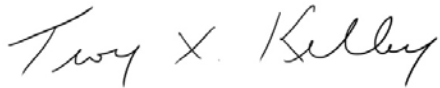
The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DISTRICT'S RESPONSE TO FINDINGS

The District's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 16, 2014

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

**North Yakima Conservation District
Yakima County
January 1, 2013 through December 31, 2013**

Board of Supervisors
North Yakima Conservation District
Yakima, Washington

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM**

We have audited the compliance of the North Yakima Conservation District, Yakima County, Washington, with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013. The District's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program

occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the District's compliance.

Basis for Qualified Opinion on, Pacific Coast Salmon Recovery and Yakima Tributary Access and Habitat Program

As described in Findings 2013-001 and 2013-002 in the accompanying Schedule of Federal Audit Findings and Questioned Costs, the District did not comply with requirements regarding its Pacific Coast Salmon Recovery and Yakima Tributary Access and Habitat Program for allowable costs/cost principles, cash management, Davis-Bacon Act, procurement, suspension and debarment and subrecipient monitoring. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to the programs.

Qualified Opinion on Pacific Coast Salmon Recovery and Yakima Tributary Access and Habitat Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its Pacific Coast Salmon Recovery and Yakima Tributary Access and Habitat Program for the year ended December 31, 2013.

District's Response to Findings

The District's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control

over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.


A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as 2013-001 and 2013-002 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as 2013-001 and 2013-002 significant deficiencies.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It

also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 16, 2014

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

North Yakima Conservation District Yakima County January 1, 2013 through December 31, 2013

Board of Supervisors
North Yakima Conservation District
Yakima, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the North Yakima Conservation District, Yakima County, Washington, for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the District's financial statements, as listed on page 41.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's

judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the North Yakima Conservation District has prepared these financial statements to meet the financial reporting requirements of Washington State statutes using accounting practices prescribed the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the North Yakima Conservation District, for the year ended December 31, 2013, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the District used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States

of America, the financial position of the North Yakima Conservation District, as of December 31, 2013, or the changes in financial position or cash flows for the year then ended, due to the significance of the matter discussed in the above “Basis for Adverse Opinion on U.S. GAAP” paragraph.

Other Matters

Supplementary and Other Information

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Liabilities is also presented for purposes of additional analysis as required by the prescribed BARS manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014 on our consideration of the District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That

report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Troy X. Kelley".

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

December 16, 2014

FINANCIAL SECTION

**North Yakima Conservation District
Yakima County
January 1, 2013 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013
Notes to Financial Statements – 2013

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Liabilities - 2013
Schedule of Expenditures of Federal Awards – 2013
Notes to the Schedule of Expenditures of Federal Awards – 2013

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		001 General
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	0
30880	Beg Fund Bal-Unreserved	407,778
38800/58800	Prior Period Adjustments, net	0
Operating Revenues		
330	Intergovernmental Revenues	885,391
340	Charges for Goods and Services	26,725
350	Fines & Penalties	0
360	Miscellaneous Revenues	97,594
Total Operating Revenues:		1,009,710
Operating Expenditures		
550	Natural and Economic Environment	943,619
598	Intergovernmental Payments	0
Total Operating Expenditures:		943,619
Net Operating Increase (Decrease):		66,091
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	2,106
391-393	Debt Proceeds	0
Total Nonoperating Revenues:		2,106
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	1,151
591-593	Debt Service	0
594-595	Capital Expenditures	0
Total Nonoperating Expenditures:		1,151
Increase (Decrease) in Cash and Investments		67,045
Ending Cash and Investments		
50810	End Fund Bal-Reserved	0
50880	End Fund Balance-Unreserved	474,825

The accompanying notes are an integral part of this Statement.

North Yakima Conservation District
Notes to the Financial Statements
For the year ended December 31, 2013

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The North Yakima Conservation District was incorporated on December 2, 1982 and operates under the laws of the state of Washington applicable to Washington State Government.

a. Reporting Entity

The North Yakima Conservation District is a special purpose government and provides resource management and protection service to the general public and is supported primarily through user charges (or where the governing body has decided that periodic determination of net income is needed).

b. Basis of Accounting

The accounting records of the North Yakima Conservation District are maintained in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The North Yakima Conservation District uses the *Budgeting, Accounting and Reporting System for Conservation Districts in the state of Washington*. The basis of accounting and reporting is an other comprehensive basis of accounting.

The accounts of the North Yakima Conservation District are maintained on the basis of funds. For reporting purposes, the activities of all the North Yakima Conservation District's funds are combined.

The North Yakima Conservation District uses the cash basis of accounting where revenues are recognized only when received and expenses are recognized when paid.

c. Cash

It is the North Yakima Conservation District's policy to invest all temporary cash surpluses. The amount is included on the statement of resources and uses arising from cash transactions as net cash and investments.

d. Deposits

The Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission cover the North Yakima Conservation District deposits and certificates of deposits.

e. Capital Assets

Major expenses for fixed assets, including capital leases and major repairs that increase useful lives, are recorded as expenses when purchased. There is no capitalization of fixed assets, nor allocation of depreciation expense. Inventory is expensed when purchased. Maintenance, repairs, and minor renewals are accounted for as expenses when paid.

f. Compensated Absences

Vacation pay may be accumulated up to 240 hours and is payable upon separation or retirement.

Sick leave may accumulate indefinitely. Upon separation or retirement employees do not receive payment for unused sick leave.

North Yakima Conservation District
Notes to the Financial Statements
For the year ended December 31, 2013

NOTE 2 - INVESTMENTS

The North Yakima Conservation District's investments are insured, registered or held by the North Yakima Conservation District or its agent in the North Yakima Conservation District's name.

<u>Type of Investment</u>	<u>Balance</u>
Investments by type at December 31, 2013 are as follows:	
Bank of America General Ledger Account	\$ 85,915.09
Yakima Federal CD Account	\$ 264,065.91
Market Rate Savings Assessment Account	\$ 124,843.71
Total 2013 Investments	\$ 474,824.71

NOTE 3 SICK LEAVE POLICY

North Yakima Conservation District sick leave policy:

North Yakima Conservation District's policy for sick leave termination benefits and our liability is as follows:

Sick Leave for Regular full-time employees will be accrued at 8 hours per month. Sick leave for all other employees will be granted as per their confirmation letter and if granted will be pro rated based on work schedule. There is no limit on the maximum sick leave accumulation. Sick leave may be taken as soon as it is accrued. Sick leave may be used for the following reasons: Illness, pregnancy, dental and medical examinations, and illness of dependant children, spouse, or other dependents. Sick leave may be used in one half-hour increments.

Upon termination or separation of employment, unused sick leave will be forfeited.

NOTE 4 - ASSESSMENTS

Special assessments are authorized by RCW 89.08.400 to be imposed for conservation districts. Activities and programs to conserve natural resources, including soil and water, are of special benefit to lands and may be used as the basis upon which special assessments are imposed.

A special assessment to finance approximately 15,354 parcels of the district was imposed for the period of year 2013 and in the amount of \$ 5.00 per acre/parcel plus ten cents per acre.

NOTE 5 LONG TERM DEBT

As of December 31, 2013 the District had no long-term debt.

North Yakima Conservation District
Notes to the Financial Statements
For the year ended December 31, 2013

NOTE 6 – WASHINGTON GOVERNMENT ENTITY POOL – NYCD INSURANCE POLICY

The North Yakima Conservation District is a member of the Washington Governmental Entity Pool (WGEP). Chapter 48.62 RCW authorizes the governing body of any one or more governmental entity to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act.

The Pool was formed July 10, 1987, when two (2) counties and two (2) cities in the State of Washington joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. The Pool now services health districts, port districts, water and irrigation districts, fire districts, mosquito and weed control districts, library districts, air pollution districts, area on aging, regional mental health support networks, cemetery, park & recreation, conservation districts, public facilities districts, and public development authorities.

The Pool allows members to jointly purchase excess insurance coverage, share in the self-insured retention, establish a plan for total self-insurance, and provide excellent risk management services and other related services. The Pool provides an occurrence policies for all lines of liability coverage including Public Official=s Liability. The Property coverage is written on an all risk basis, blanket form using current Statement of Values. The Property coverage includes mobile equipment, electronic data processing equipment, valuable papers, building ordinance coverage, property in transit, extra expense, consequential loss, accounts receivable, fine arts, inventory or appraisal cost, automobile physical damage to insured vehicles. Boiler and machinery coverage is included on a blanket limit of \$50 million for all members. The Pool offers employee dishonesty coverage up to a liability limit of \$1,000,000.

Members make an annual contribution to fund the Pool. The Pool acquires insurance from unrelated underwriters that are subject to a per occurrence \$500,000 deductible on liability loss, \$100,000 deductible on property loss, and \$5,000 deductible on boiler and machinery loss. The member is responsible for the first \$1,000 of the deductible amount of each claim, while the Pool is responsible for the remaining \$499,000 on liability losses, \$99,000 on property loss, \$4,000 on boiler and machinery loss. Insurance carriers cover all losses over the deductibles as shown to the policy maximum limits. Since the Pool is a cooperative program, there is a joint liability among the participating members.

The contract requires members to remain in the pool for a minimum of three (3) years and must give notice 60 days before terminating participation. Members joining after October 2000 join the pool with one (1) full fiscal year commitment and must give notice six (6) months before terminating participation. The Interlocal Governmental Agreement is renewed automatically each year after the initial three (3) year period. Even after termination, a member is still responsible for contribution to the Pool for any unresolved, unreported and in-process claims for the period they were a signatory to the Interlocal Governmental Agreement.

The Pool is fully funded by its member participants. Claims are filed by members with the Washington Governmental Entity Pool, and are administered in house.

A Board of Directors consisting of seven (7) board members governs the Pool. Its members elect the Board and the positions are filled on a rotating basis. The Board meets quarterly and is responsible for conducting the business affairs of the Pool.

Historical trend or other information regarding each plan is presented in the state Department of Retirement Systems 2013 annual financial report. A copy of this report may be obtained at the address listed above.

North Yakima Conservation District

Schedule of Liabilities
For the year ended December 31, 2013

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance January 1, 2013	Additions	Reductions	Ending Balance December 31, 2013
General Obligations							
	259.11	Compensated absences		39,012	0	8,549	30,463
		Total General Obligations:		39,012	0	8,549	30,463
		Total Liabilities:		39,012	0	8,549	30,463

The accompanying notes to the financial statements are an integral part of this schedule

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended December 31, 2013

Federal Agency Name/Pass-Through Agency Name	Federal Program Name	CFDA Number	Other Award Number	Expenditures			Footnote Ref
				From Pass-Through Awards	From Direct Awards	Total Amount	
Forest Service, Department Of Agriculture/Washington State Department of Natural Resources	Cooperative Forestry Assistance	10.664	IAA-10-255-09-DG 025-RJZ	34,265		34,265	
Natural Resources Conservation Service, Department Of Agriculture/Washington State Conservation Commission	Environmental Quality Incentives Program	10.912	TSP-CR contract (CA-13-03)	13,095		13,095	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	10-1753R (La Salle)		22,804	22,804	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	09-1590R (Matson)		2,400	2,400	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	12-1329R (CCWUA)		129,125	129,125	
National Oceanic And Atmospheric Administration (noaa), Department Of Commerce	Pacific Coast Salmon Recovery_Pacific Salmon Treaty Program	11.438	10-1764R (Herke)		165,867	165,867	
Total CFDA 11.438				0	320,196	320,196	
Dept. of Interior BOR - Yakima River Enhancement Project	Yakima River Enhancement Project	15.999	06PBIU0540		3,000	3,000	
Dept. of Energy - BPA / South Central Washington Resource Conservation and Development - YTAHP	Yakima Tributary Access and Habitat Program	81.398	2007-398-00	322,987		322,987	
Total Federal Awards Expended:				370,348	323,196	693,543	

The accompanying notes to the Schedule of Expenditures are an integral part of this schedule

The Accompanying Notes To The Schedule Of Expenditures of Federal Awards Are An Integral Part Of This Schedule.

Note 1 Basis of Accounting: This schedule is prepared on the same basis of accounting as the district's financial statements. The district uses the methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The North Yakima Conservation District uses Budgeting, Accounting and Reporting Systems for the Conservation Districts in the State of Washinton.

Note 2 Program Costs: The amounts shown as current year expenditures represent only the federal grant portion of the program costs. Entire program costs, including the district's portion (matching funds), are more than shown.

CORRECTIVE ACTION PLAN FOR FINDINGS REPORTED UNDER OMB CIRCULAR A-133

North Yakima Conservation District Yakima County January 1, 2013 through December 31, 2013

This schedule presents the corrective action planned by the auditee for findings reported in this report in accordance with OMB Circular A-133. The information in this schedule is the representation of the North Yakima Conservation District.

Finding ref number: 20013-001	Finding caption: North Yakima Conservation District's internal controls were inadequate to ensure compliance with federal requirements of its Yakima Tributary Access and Habitat Program.
Name, address, and telephone of auditee contact person: Mike Tobin, District Manager, USDA Service Center 1606 Perry Street Yakima, WA 98902 (509) 454-5736	
Corrective action the auditee plans to take in response to the finding: <i>Cost Principals: NYCD has and will require that any invoice submitted to NYCD by a third party will only have billing (s) for one project per invoice. NYCD accounting staff will be responsible to review all submitted invoices for accuracy and adhering to the new accounting policy (policy is already in place and being exercised). Project level staffs are aware of the new policy and no longer have "invoicing responsibility" thus minimizing risk in this cost principal. NYCD has worked with the YTAHP and RCO staff and have corrected ALL billings (no repayments were necessary due to the fact NYCD had additional invoices where YTAHP and RCO were able to withhold reimbursement(s) to correct over payments). YTAHP and RCO are satisfied with the corrections.</i> <i>Procurement and Davis-Bacon: At this time NYCD staffs responsible for contracting have taken training courses (summer and fall 2014) on procurement and contracting and are aware of the current federal requirements in this regard. In addition, training included the required elements of the Davis-Bacon Act with emphasis on reporting issues / needs.</i> <i>Suspension and Debarment: NYCD has implemented a policy that ALL vendors and sub-recipients will be checked for suspension and debarment regardless of level of payment (prior to payment). In addition NYCD has developed appropriate language to be included in any sub-contract (sub-recipient) requiring the same level of review of the suspension and debarment requirement.</i>	

Additional: NYCD administrative, accounting and project level staff will review the included “applicable laws and regulations” information submitted here by the SAO staff.

Anticipated date to complete the corrective action: December 16, 2014

Finding ref number:

2013-002

Finding caption:

North Yakima Conservation District’s internal controls were inadequate to ensure compliance with federal requirements of its Yakima Tributary Access and Habitat Program.

Name, address, and telephone of auditee contact person:

Mike Tobin, District Manager, USDA Service Center
1606 Perry Street
Yakima, WA 98902
(509) 454-5736

Corrective action the auditee plans to take in response to the finding:

Cost Principals: The NYCD has begun (starting November 2014) to charge specific days to all funding sources to adhere to the “cost principals” rather than use the monthly grant identified amount. This will be consistent across all funding sources and will be consistent with monthly schedule worksheets.

Cash Management: NYCD accounting staff will be responsible to review all submitted invoices for accuracy and will submit them for invoicing and timely payment. Project level staff are aware of the new policy and will no longer have that responsibility. All third party entities are aware of the proper staff contact at NYCD and are submitting invoices appropriately.

Procurement and Davis-Bacon: At this time NYCD staffs responsible for contracting have taken training courses (summer and fall 2014) on procurement and contracting and are aware of the current federal requirements in this regard. In addition, training included the required elements of the Davis-Bacon Act with emphasis on reporting issues / needs.

Suspension and Debarment: NYCD has implemented a policy that ALL vendors and sub-recipients will be checked for suspension and debarment regardless of level of payment (prior to payment). NYCD has developed appropriate language to be included in any sub-contract (sub-recipient) requiring the same level of review of the suspension and debarment requirement with follow-up support of such action with NYCD (monitoring). In addition, NYCD has included specific information to inform the sub recipient of federal requirements and identify funding source.

Additional: NYCD administrative, accounting and project level staff will review the included “applicable laws and regulations” information submitted here by the SAO staff.

Anticipated date to complete the corrective action: December 16, 2014

Finding ref number: 2013-003	Finding caption: The District's internal controls were inadequate to ensure the District met federal single audit reporting requirements.
Name, address, and telephone of auditee contact person: Mike Tobin, District Manager, USDA Service Center 1606 Perry Street Yakima, WA 98902 (509) 454-5736	
Corrective action the auditee plans to take in response to the finding: <i>As noted in the "Cause of the Condition" human error is the culprit for the mistake. To overcome the mistake NYCD staff at the management level will be responsible to research available resources such as the SAO website/help line and/or review the criteria within the detail of grant contracts to ensure single audits are conducted as appropriate. This will be done in conjunction with finalizing NYCD's annual audit report to the SAO (150 days max.).</i>	
Anticipated date to complete the corrective action: December 16, 2014	

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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